

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2001-380-S - ORDER NO. 2002-138

MARCH 1, 2002

IN RE: Application of Midlands Utility, Inc. for)	ORDER ESTABLISHING
Approval of the Designation of a Collection)	COLLECTION ONLY
Only Service Charge for Sewer Service to its)	SEWER CHARGE
Customers in Richland, Lexington, Fairfield,)	
and Orangeburg Counties, SC.)	

This matter comes before the Public Service Commission of South Carolina ("Commission") on an application of Midlands Utility, Inc. ("Midlands"), filed on August 28, 2001, seeking establishment of a collection only service charge for Midlands' sewer customers in Richland, Lexington, Fairfield, and Orangeburg Counties, South Carolina. By its application, Midlands acknowledges that it is not seeking a rate increase but states that Midlands is seeking approval of the designation of a collection only service charge as a component of Midlands' previously approved sewer tariff.

By letter dated September 21, 2001,¹ the Commission's Executive Director instructed Midlands to publish a prepared Notice of Filing, one time, in newspapers of general circulation in the areas affected by Midlands' application. The Notice of Filing indicated the nature of the application and advised all interested persons desiring to

¹ The letter of the Executive Director is erroneously dated September 21, 2000. However, it is clear to the Commission that the error is merely a scrivener's error and that the correct date on the letter should reflect September 21, 2001. Clearly, a date reflecting the year 2000 is error because the application was not filed until August 28, 2001. Further, all other dates in the letter indicate the year as 2001. Additionally, the docket file contains a certification that an agent of Midlands' attorney received the Executive Director's letter and Notice of Filing on September 21, 2001. Therefore, the Commission in this Order refers to the correct date of the letter, rather than the erroneous date.

participate in the scheduled proceedings of the manner and time in which to file the appropriate pleadings for inclusion in the proceedings. The Executive Director also instructed Midlands to notify directly, by U.S. mail, each customer affected by the application by mailing each customer a copy of the Notice of Filing. Midlands furnished the Commission with an Affidavit of Publication and a sworn Certificate of Service indicating that the instructions of the Executive Director regarding publication and service of the Notice of Filing were followed. No Petitions to Intervene were received by the Commission, but one letter of protest from a customer of Midlands was received.

On December 19, 2001, the Commission held a public hearing on Midlands' application for the designation of a collection-only service charge for sewerage service. The Honorable William Saunders, Chairman, presided at the hearing. Midlands was represented by William F. Austin, Esquire and E. Crosby Lewis, Esquire. The Commission Staff was represented by Florence P. Belser, Deputy General Counsel. At the hearing, Midlands sponsored the testimony of Keith G. Parnell, Vice President and Operations Manager for Midlands. Staff sponsored the testimony and exhibits of Vivian B. Dowdy, an auditor with the Commission's Audit Department, and Charles A. Creech, Chief of Water and Wastewater for the Commission's Utilities Department.

FINDINGS AND CONCLUSIONS

1. The Commission finds that Midlands has established a need for the designation of a collection only service charge for sewer service.

This finding of fact is based upon the testimony of Midlands' witness Parnell. Mr. Parnell testified that Midlands is proposing a collection only service charge following

Midlands' forward-looking economic planning. According to Mr. Parnell, Midlands is planning for anticipated requirements from the South Carolina Department of Health and Environmental Control ("SCDHEC"). Mr. Parnell stated that SCDHEC's policy is to promote aggregation of sewer services. In other words, SCDHEC is seeking the regionalization of private sewer utility treatment facilities by termination of privately owned waste treatment plants and by connection of the sewer systems to governmental sewer treatment facilities. This strategy of regionalization, utilizing 208 Plans and NPDES permits as enforcement tools, attempts to require private utilities such as Midlands to enter into contracts with regional sewer systems for treatment of sewer, with the private utility providing collection only services. Thus, Midlands' reason for seeking the establishment or designation of a collection only service charge.

Further, Mr. Parnell testified that regionalization has been conducted without regard to the rates that would be charged to customers under SCDHEC's regionalization policies. According to Mr. Parnell, the determination of the collection only portion of the service charge will allow utilities, owners of regional sewer systems, and SCDHEC to compare, with reasonable certainty, the cost of regional treatment facilities versus the cost of the upgrade of existing facilities and the probable increase in consumer rates.

2. The Commission finds that the appropriate allocation factor to use in setting a collection only sewer charge for Midlands is 53.24%. This allocation factor is based upon Commission findings concerning adjustments and appropriate allocation factors to apply to various expense accounts as described below.

(a) Allocation Factor to Apply to Expense Accounts:

Midlands proposed certain allocation factors to apply to expense accounts to derive a total allocation factor. Midlands proposed allocation factors ranging between 10% and 100% for various accounts. An allocation factor of 70% was applied to the majority of the expense accounts.

With regard to the percentages used by Staff to allocate percentages of expenses to collection services, Staff witness Creech testified that a 70% allocation factor was applied to the majority of expense accounts in the allocation analysis performed by Midlands. According to Mr. Creech, Staff used plant balances from Midlands' latest annual report on file with the Commission to verify that the 70% factor was reasonable. Staff divided Collection Plant of \$1,744,181 by Total Plant in Service of \$2,514,142 to arrive at a factor of 69.37%. Thus, Mr. Creech opined that Staff found its calculation to support the 70% factor used by Midlands for most expense accounts. However, Staff did take exception to Midlands' use of 100% allocation to the expense accounts of Other Taxes, Office Expense, Administration Salaries and Wages, and Depreciation Expense. On those expense accounts, Staff recommended that a 70% allocation factor be used consistent with the majority of the allocation percentages used by Midlands.

The Commission finds that the allocation factors proposed by Staff should be used in this proceeding. The Commission agrees with the Staff that the expense accounts of Other Taxes, Office Expense, Administration Salaries and Wages, and Depreciation Expense should not be assessed to collection at 100%. These expense categories should properly be divided between collection and treatment. Therefore, the Commission finds

that Staff's proposal to allocate 70% of these accounts to collection is appropriate based upon Staff's verification of the 70% factor used by Midlands for the majority of expense accounts.

(b) Adjustments to Normalize the Company's Books and Records:

According to Staff witness Dowdy, Staff verified the application's balances to Midlands' books and records. Staff then made certain accounting adjustments designed to correct or normalize Midlands' per book operations.

In normalizing the per book figures, Staff made certain adjustments to the books of Midlands. Staff witness Dowdy testified that for the per book balances as of June 30, 2001, Staff made the following adjustments:

Adjustment 1: Staff eliminated all payments on long term notes as these items are payments made to reduce outstanding debts. The repayment of long term notes is a reduction of debt on the balance sheet and is not an income statement expense.

Adjustment 2: Staff corrected Other Taxes (Non-Payroll). The amount was recorded twice in Midlands' application.

Adjustments 3, 5, 6, 7, 8, and 10: Staff adjusted expenses associated with state income taxes, water, electric and gas, plant maintenance, office expense and administrative wages. The expenses in the application did not agree with the amounts recorded on Midlands' books and records. Staff's adjustments to these expense accounts reconciled the expenses to the amounts recorded on Midlands' books and records.

Adjustment 4: Staff and Midlands proposed to eliminate penalties from the calculation of the collection allocation. Penalties were eliminated because penalties

are considered nonrecurring items and are not normally considered to be recoverable expenses for ratemaking purposes.

Adjustment 9: Staff eliminated the payroll taxes and salary for a retired employee who has not been replaced.

Adjustment 11: Staff eliminated a piece of equipment, a boring tool, purchased. Staff proposed to capitalize and depreciate the boring tool rather than include the equipment in expenses. Capitalizing and depreciating the equipment allows it to be expensed over its useful life as it will continue to serve ratepayers in future years.

Adjustment 12: Staff proposes to include Depreciation Expense not reported in the application. Staff's adjustment annualizes Depreciation Expense. Further, Staff opined that Depreciation Expense should be included in expenses to arrive at the total expenses associated with collection.

For the per book balances as of June 30, 2000, Staff witness Dowdy testified that Staff made the following adjustments:

Adjustment 1: Staff eliminated all payments on long term notes as these items are payments made to reduce outstanding debts. The repayment of long term notes is a reduction of debt on the balance sheet and is not an income statement expense.

Adjustments 2 and 9: Staff reclassified Property Taxes & Licenses to the proper account. The amount was booked in Other Taxes (Non-Payroll) and should have been booked in the Property Taxes and Licenses account.

Adjustments 3, 4, 6, 11, and 12: Staff adjusted expenses associated with state income taxes, public utility taxes, chemicals, employer taxes and contributions, and

salaries. The expenses in the application did not agree with the amounts recorded on Midlands' books and records. Staff's adjustments to these expense accounts reconciled the expenses to the amounts recorded on Midlands' books and records.

Adjustment 5: Staff and Midlands proposed to eliminate penalties from the calculation of the collection allocation. Penalties were eliminated because penalties are considered nonrecurring items and are not normally considered to be recoverable expenses for ratemaking purposes.

Adjustment 7: Staff proposes to remove a SCDHEC penalty from Treatment Expenses. Penalties are considered non-recurring items and are not normally considered to be recoverable expenses for ratemaking purposes.

Adjustment 8: Staff proposes to add Collection Expenses to per book numbers. This account was not included in the application. Staff used the Collection Expenses as recorded on the books and records of Midlands. Staff is of the opinion that Collection Expenses should be included in expenses to arrive at the total expenses associated with collection.

Adjustment 10: Staff proposes to add Non-Plant Maintenance Expenses to per book numbers. This account was not included in the application. Staff used the Non-Plant Maintenance Expenses as recorded on the books and records of Midlands. Staff is of the opinion that Non-Plant Maintenance Expenses should be included in expenses to arrive at the total expenses associated with collection.

Adjustment 13: Staff removed SCDHEC penalties from Other Expenses. Penalties are considered non-recurring items and are not normally considered to be recoverable expenses for ratemaking purposes.

Adjustment 14: Staff proposes to include Depreciation Expense not reported in the application. Staff's adjustment annualizes Depreciation Expense. Further, Staff opined that Depreciation Expense should be included in expenses to arrive at the total expenses associated with collection.

On cross-examination, Midlands' witness Parnell stated that he agreed with all of the Staff's proposed adjustments with the exception of Adjustment 9 of the expenses for the fiscal year ending June 30, 2001. Staff's adjustment 9 for the fiscal year ending June 30, 2001, concerned the elimination of payroll taxes and salary for a retired employee. Mr. Parnell stated that Midlands would be filling that position in the future and probably within a year's time.

Upon consideration of the proposed accounting adjustments, the Commission finds Staff's proposed adjustments reasonable and appropriate. Staff's adjustments normalize the expenses upon which the collection only charge will be based, and the Commission finds it appropriate that the expenses should be normalized before the expenses are used to calculate a collection rate. With regard to Midlands' request that the Staff's adjustment 9 for the fiscal year ending June 9, 2001, not be adopted, the Commission must deny that request. The Staff adjustment is appropriate because at the time of the Staff audit, and even at the time of the hearing, that employee position was not filled. It is not sufficient to say that the position will be filled in the future. The

Commission must rely upon the events as presented at the hearing, not events which may or may not occur in the future.

(c) Calculation of Resulting Overall Allocation Factor to Apply for Collection Charge:

Following the adjustments made by Staff to the expense accounts and to the percentages used for certain expense accounts, Staff calculated the allocation factors for the two years of expenses. Staff calculated an allocation factor for the year ending June 30, 2001, of 52.74% and an allocation factor for the year ending June 30, 2000, of 53.73%. Staff witness Dowdy testified that Staff computed an allocation factor of 53.24%. Staff's allocation factor was derived (1) by calculating the allocation factor for the year ending June 30, 2001, and calculating the allocation factor for the year ending June 30, 2000, and then (2) averaging those allocation factors.

Midlands' witness Parnell testified that he conducted an analysis and study of all expense items to determine what percentages should properly be allocated to collection and to treatment. Mr. Parnell applied certain percentages of expenses to collection services. As a result of that study, Mr. Parnell stated that a 60% allocation factor of expenses is a fair and reasonable allocation of expenses to the collection portion of Midlands' rates.

The Commission finds that the allocation factor of 53.24% as computed by Staff is the appropriate allocation factor to apply to collection. The Staff's computed allocation factor utilized a two year analysis of expenses verified to the books and records of Midlands. Further, as the Commission has adopted the accounting adjustments proposed

by the Staff and has adopted the adjusted allocation factor of 70% to apply to the expense accounts of Other Taxes, Office Expense, Administration Salaries and Wages, and Depreciation Expense, the Commission finds it appropriate to use the allocation factor based on these adjustments.

3. The appropriate monthly collection only service charges for sewer service provided by Midlands, using the allocation factor of 53.24% found reasonable herein, are \$14.22 for residential/commercial (per SFE) customers and \$10.81 for mobile home customers.

The record reveals that Midlands currently has approved rates of \$26.70 for residential/commercial (per SFE) customers and \$20.30 for mobile home customers. Applying the herein approved allocation factor to Midlands' currently approved rates produces collection only rates of \$14.22 for residential/commercial (per SFE) customers and \$10.81 for mobile home customers.

4. The Commission finds that Midlands should re-categorize its books and records to use a Plant Account and a Collection Account.

Staff witness Creech testified that Midlands' books and records are currently organized using either a Plant Account or a Non-Plant Account. Mr. Creech recommended that Midlands re-categorize its books and records using a Plant Account and a Collection Account. Mr. Creech stated that under Staff's recommended method the actual expenses in most cases could be determined without the necessity of using an allocation method if Midlands applied for rate adjustments in the future.

The Commission finds the recommendation of Staff that Midlands re-categorize its books and records using a Plant Account and a Collection Account, rather than the current method of using a Plant Account and a Non-Plant Account, reasonable and appropriate. This requirement becomes effective for all books and records beginning in calendar year 2002. In future proceedings regarding Midlands, the Commission will give appropriate weight to these findings and will take particular notice of Midlands' costs associated with wastewater treatment only. Further, the comparison of Midlands' "wastewater only" costs with future regional wastewater charges should be of special interest to this Commission in future proceedings.

IT IS THEREFORE ORDERED THAT:

1. A collection only sewer charge is hereby established for Midlands at the rate of \$14.22 for residential/commercial (per SFE) customers and \$10.81 for mobile home customers.

2. Midlands shall re-categorize its books and records using a Plant Account and a Collection Account, and this re-categorization shall be effective for all books and records beginning in calendar year 2002.

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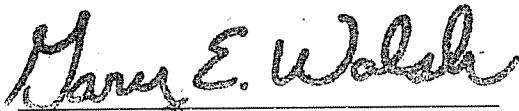
3. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



Chairman

ATTEST:



Executive Director

(SEAL)